

AR63

Winspear Business Reference Library  
University of Alberta  
1-18 Business Building  
Edmonton, Alberta T6G 2R6

# A CLEAR FOCUS: THE KEY TO OUR CLIENTS' SUCCESS

A N N U A L   R E P O R T   2 0 0 2



B2B TRUST

## Table of Contents

1	Financial Highlights
2	To Our Shareholders
6	Management's Discussion and Analysis of Financial Condition and Results of Operations
13	Toward Integrated Risk Management
18	Financial Statements
24	Notes to Financial Statements
38	Corporate Governance
39	Board of Directors
39	Management Committee
40	Shareholder Information

## Corporate Profile

B2B Trust is a provider of investment and banking services to consumers. We are a unique combination of a technological infrastructure company and a regulated financial institution. Our services are made available through two primary channels: independent financial advisors through their dealerships, and other members of the investment community. We work closely with financial advisors to provide them with products and services that complement their offering and enhance the client relationships. Our head office is located in Toronto, Ontario. For more information, visit [www.b2b-trust.com](http://www.b2b-trust.com).

# Financial Highlights

(in thousands of dollars, except per share amounts)

As at October 31	2002	2001
<b>PER COMMON SHARE</b>		
Net income		
Basic and diluted	\$ 0.83	\$ 0.99
Book value	\$ 7.37	\$ 6.68
Share price		
High	\$ 12.50	\$ 9.40
Low	\$ 7.40	\$ 6.95
Close	\$ 7.80	\$ 7.50
Number of common shares outstanding (in thousands)		
Average	24,844	20,623
End of period	24,844	24,844
Price/earnings ratio	9.4 x	7.6 x
Market to book value	106 %	112 %
<b>EARNINGS</b>		
Total revenue	\$ 71,793	\$ 73,485
Net income available to common shareholders	\$ 20,664	\$ 20,461
Return on common shareholders' equity	11.8 %	14.2 %
Return on average assets	0.81 %	0.88 %
Other income		
As a % of total revenue	23.5 %	23.2 %
As a % of average assets	0.66 %	0.73 %
Efficiency ratio		
Non-interest expenses as a % of total revenue	51.4 %	47.9 %
<b>BALANCE SHEET ASSETS AND ASSETS UNDER ADMINISTRATION</b>		
Balance sheet assets	\$2,686,343	\$2,481,855
Cash resources and securities	\$ 428,400	\$ 466,322
Loans	\$2,197,405	\$1,958,601
Deposits	\$2,267,155	\$2,097,462
Assets under administration	\$4,537,657	\$5,274,903
Cash resources and securities		
As a % of balance sheet assets	15.9 %	18.8 %
<b>QUALITY OF ASSETS</b>		
Net impaired loans		
As a % of investment and other personal loans	(0.04) %	0.01 %
Allowances for credit losses		
As a % of gross impaired loans	129 %	91 %
As a % of investment and other personal loans	0.18 %	0.15 %
<b>CAPITALIZATION</b>		
Shareholders' equity and subordinated indebtedness	\$ 243,035	\$ 225,849
Tier 1 capital ratio	13.3 %	13.3 %
Total capital ratio	17.6 %	18.2 %

# TO OUR

# SHAREHOLDERS

## A PRODUCTIVE FISCAL YEAR FOR B2B TRUST

B2B Trust has achieved significant milestones in its second year as a public company. Throughout the year, B2B Trust has accelerated the delivery of more flexible, customized products and services, strengthened its corporate governance and compliance, and achieved satisfactory financial results despite difficult capital market conditions. These moves will not only enable the Company to meet the demands of its distribution alliances and their clients, but will also drive future growth and enhance shareholder value.

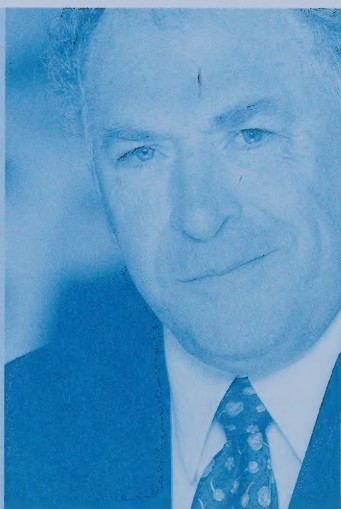
## MODERATE GROWTH IN A DIFFICULT CAPITAL MARKET

B2B Trust continued adding new distribution alliances and achieved moderate volume growth in 2002, notably in the RRSP loan portfolio during the first six months of the year, and in the deposit portfolio resulting from an acquisition and from client preference for term deposit products.

B2B Trust's total revenue and net income remained relatively unchanged in 2002, due to slower investment loan growth, an unfavorable interest rate environment, and pricing competition.



**Bernard Piché**, President and CEO



**Raymond McManus**, Chairman

The net income for fiscal year 2002 was \$20.7 million or \$0.83 per common share compared to \$20.5 million or \$0.99 per common share in 2001. The decrease in net income per common share resulted from the increase in the weighted average number of common shares from 20.6 million in fiscal 2001 to 24.8 million in fiscal 2002.

Overall, we are satisfied with our financial results and very pleased with the credit performance of our investment lending portfolio. We remain committed to leveraging our products and distribution alliances to generate further growth in fiscal 2003.

## **B2B TRUST SUCCESSFULLY COMPLETES ACQUISITION**

In September 2002, B2B Trust purchased the personal loans and assumed most of the deposit liabilities of Sun Life Financial Trust. The total value of loans acquired stands at about \$38 million, and approximately \$98 million in deposits were assumed. As part of the same transaction, Agency Banking (business line of Laurentian Bank of Canada) acquired the mortgage loans of Sun Life Financial Trust, valued at about \$29 million.

As part of the agreement, Sun Life Financial Trust assigned to B2B Trust marketing and distribution alliances with IPC Financial Network and IQON Financial (a member of the Sun Life Financial Group of companies). B2B Trust will provide each of these companies with a selection of financial products for distribution to their customers.

The transition of customer accounts is completed and we are working closely with IPC and IQON to provide high quality service to their advisors and clients.

## DISTRIBUTION ALLIANCES EMBRACE B2B TRUST SOLUTIONS

At B2B Trust, we focus on developing tools that empower the financial advisor. We offer investment products and services which are made available through two primary channels: independent financial advisors through their dealerships, and other members of the investment community, such as mutual fund companies, life insurance companies, deposit and mortgage brokers offering financial services directly to their customers.

B2B Trust is poised for continuing growth in its various business lines as its relationships with key alliances continue to gain momentum:

- **Clarington Funds Inc.** selected B2B Trust as the supplier of an investment loan program distributed under their own brand names to complement their group of fund products.
- **Dynamic Mutual Fund Ltd.**, a subsidiary of Dundee Wealth Management Inc., selected B2B Trust as the supplier of the Dynamic Advantage Investment Loan Program.
- **Sun Life Assurance Company of Canada** selected B2B Trust as the supplier of a segregated funds loan program offered to clients who wish to purchase a SunWise Individual Variable Annuity Contract.
- **CI Mutual Funds Inc.** selected B2B Trust as the supplier of an investment loan program distributed under their own brand names to complement their group of fund products.
- **Standard Life Trust**, a subsidiary of Standard Life Assurance Company, selected B2B Trust as a supplier of an investment loan program. This program is an addition to the RRSP loan program offered by Standard Life Trust through B2B Trust.

## BUILDING MOMENTUM

Looking ahead, B2B Trust remains well positioned for growth. In fiscal 2002, we increased the quality of our product offering, maintained a strong capital base and implemented a niche market strategy to achieve our goals.

Our vision is to be the leader among independent financial advisors and other members of the investment community across Canada. In order to achieve this goal we will continue to:

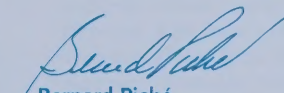
- Provide outstanding quality products and value-added training and expertise to our distribution alliances;
- Focus on the most profitable core products and services of our business; and

- Improve profitability by strengthening our client base with additional distribution alliances.

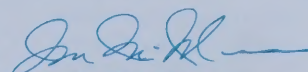
We are proud of our team and want to take this opportunity to thank our employees for their hard work and dedication and thank the counterparts involved in our distribution alliances for their ongoing commitment to B2B Trust. On behalf of B2B Trust's Board of Directors, we acknowledge the exceptional leadership of Mr. Henri-Paul Rousseau, past President and CEO, and Mr. Jean Bazin, past Chairman, whose contributions have launched and built B2B Trust's success. The Board of Directors would also like to thank Mr. Michel Pelletier, past Co-Chief Operating Officer for his

outstanding contribution in the creation, direction and development of B2B Trust.

Finally, a sincere thank you to all of our shareholders for their continued investment and support. We are encouraged by our momentum and look forward to delivering on our commitments in fiscal 2003.



**Bernard Piché**  
President and CEO



**Raymond McManus**  
Chairman

# MANAGEMENT'S

# DISCUSSION

## AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

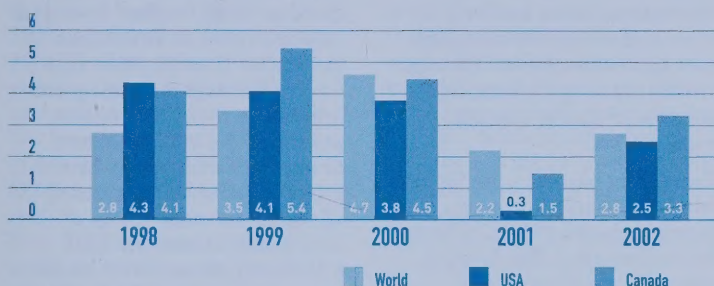
This section of the annual report presents management's discussion and analysis of financial condition and the results of operations for the year ended October 31, 2002. The financial information is presented on the same basis as the financial statements and has been prepared in accordance with Canadian generally accepted accounting principles.

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This annual report contains forward-looking statements relating, but not limited to, anticipated financial performance, business prospects and strategies of B2B Trust. These statements are subject to random factors and risk factors, several of which are independent of B2B Trust's will, and can have an impact on B2B Trust's operations, performance and results. These factors may

impact on the actual results differing from anticipated performance. The factors in question include legislative and regulatory changes, intensification of competition, evolution of technology, financial market conditions and the economic climate in Canada and around the world, along with B2B Trust's success at managing costs related to executing its business plan. Readers are advised not to place disproportionate confidence in the forward-looking statements.

## GDP GROWTH RATE (in percent)



## ECONOMIC REVIEW

In 2002 the North American economy, which had been hit by a general slowdown in 2001, started growing again. Canada's growth was very vigorous in 2002 compared to the growth in the United States. The United States continues to experience a difficult economic climate.

The slow pace of recovery of the United States' economy is due to the lingering effects of September 11th, 2001, the fears created by geopolitical events, and the weakness of the world's capital markets, which have been plagued by accounting misconduct throughout 2002.

Canada's economy, notwithstanding its strong dependency on the United States' economy, was very resilient and bounced back in 2002 as a result of a strong housing market, the strength of domestic demand and its competitiveness in the export market.

Consequently, the Bank of Canada has started to tighten its monetary policy in the middle of the year. With the increase by the Bank of Canada of key interest rates by 0.75% in three steps, short and medium term interest rates

increased in 2002, whereas the Federal Reserve has recently eased its monetary policy by lowering its prime rate to a historically low level.

## SUMMARY OF FINANCIAL RESULTS

Despite extremely volatile market conditions during most of 2002, B2B Trust's total revenue and net income held steady as the Company continued to enlarge its product offering, to roll-out its banking platform and has entered into different acquisition and distribution alliances.

B2B Trust recorded net income of \$20.7 million or \$0.83 per common share in 2002 compared to \$20.5 million or \$0.99 per common share in 2001. Year over year, net income has increased by 1.0% while net income per common share decreased by 16.2%. The decrease in the per share numbers resulted from the increase in the weighted average number of common shares from 20.6 million in 2001 to 24.8 million in 2002. Return on common shareholders' equity was 11.8% in 2002 compared to 14.2% in 2001. The 2001 financial results included a \$1.1 million net

charge related essentially to an income tax rate reduction on future income tax assets. Excluding this special item, 2001 net income per common share would have been \$1.05.

The evolution of B2B Trust's profitability is largely explained by the following factors:

- Total revenue was \$71.8 million in 2002 compared to \$73.5 million in 2001; net interest income decreased to \$54.9 million in 2002 from \$56.5 in 2001, while other income remained stable. Net interest margin declined to 2.16% of average assets in 2002 compared to 2.43% in 2001. The decrease is associated with the interest rate environment and rate competition.
- The provision for credit losses was \$0.8 million in 2002, the same level as in 2001. Asset quality has improved. Allowance for credit losses exceeded gross impaired loans by \$0.5 million at October 31, 2002 compared as at year-end 2001 where gross impaired loans exceeded allowance for credit losses by \$0.2 million.
- Non-interest expenses increased from \$35.2 million in 2001 to \$36.9 million in 2002. The increase is the result of the acquisition of the net assets of Sun Life Financial Trust, and cost related to distribution alliances. B2B Trust's efficiency ratio was 51.4% (non-interest expenses divided by total revenue) in 2002 compared to 47.9% in 2001.
- Without the 2001 \$1.1 million special tax charge, related principally to the Ontario corporate income tax rate reduction on future income tax assets, effective tax rate was 39.5% in 2002 compared to 42.5% in 2001.

Several key factors accounted for B2B Trust's 2002 performance. The credit quality of the investment loan portfolio was strong notwithstanding difficult financial markets. Net interest margins were under pressure in 2002 due to the interest rate environment and pricing competition. Improvement in asset management, through reduction of liquidities to invest in higher yielding blocks of insured residential mortgages, helped to limit the net interest margin reduction. Net interest margin was further sustained by growth in the deposit portfolio resulting from the Sun Life Financial Trust net assets acquisition and from client preference for term deposit products. Finally, B2B maintained relentless efforts to contain costs while attaining higher quality standards.

## OPERATING RESULTS

### Net interest income

Net interest income decreased from \$56.5 million in 2001 to \$54.9 million in 2002. Interest income was generated by investment and other personal loan portfolio, residential mortgages and the liquidity

portfolio (comprised of cash resources and securities). To sustain its net interest margin, B2B Trust acquired \$342 million of insured residential mortgages from Laurentian Bank of Canada, thereby reducing its liquidities in excess of normal liquidity requirements.

These asset portfolios are funded principally through deposits generated by the B2B Trust broker deposit business. This funding source is complemented by deposits held in self-directed registered plans and high yield savings accounts.

### Other income

Total other income was \$16.9 million in 2002, down \$0.1 million or 0.6% compared to \$17.0 million in 2001. Self-directed registered plans fees were \$13.1 million, down 7.1% from \$14.1 million in 2001 due to a reduction in the number of accounts. Other income was \$3.5 million, up \$0.7 million from \$2.8 million in 2001.

### Provision for credit losses

The provision for credit losses charged to the results was at \$0.8 million in 2002, the same level as in 2001. The quality of the investment loan portfolio

remained strong in 2002, despite difficult equity markets. Gross impaired loans showed a slight decrease of \$0.1 million from \$1.8 million in 2001 to \$1.7 million at October 31, 2002. Allowance for credit losses exceeded gross impaired loans by \$0.5 million at October 31, 2002 compared to the inverse situation where gross impaired loans exceeded allowance for credit losses of \$0.2 million at year-end 2001. B2B Trust's allowance for credit losses included a general allowance of \$1.4 million at October 31, 2002, an increase of \$0.4 million over the previous year. The increase results from the net assets acquired from Sun Life Financial Trust in September 2002.

### Non-interest expense

Non-interest expense was \$36.9 million during 2002 compared to \$35.2 million in 2001. The increase is the result of additional costs of \$0.4 million related to the integration of the acquired Sun Life Financial Trust net assets, the implementation of new distribution alliances and expenses incurred to strengthen the risk management and compliance functions. Salaries and employee benefits totalled

## NET INTEREST INCOME

	2002			2001		
	Average balance	Average rate	Interest	Average balance	Average rate	Interest
(in thousands of dollars)						
<b>Assets</b>						
Cash and cash equivalents and securities	\$ 363,215	3.56 %	\$ 12,941	\$ 375,603	5.07 %	\$ 19,047
Loans						
Investment and other personal	1,192,523	5.09 %	60,679	1,092,168	7.38 %	80,555
Residential mortgages	963,311	6.13 %	59,068	849,617	6.70 %	56,887
Capital assets and other assets	21,433	—	—	2,549	—	—
	2,540,482	5.22 %	132,688	2,319,937	6.74 %	156,489
<b>Liabilities</b>						
Deposits	2,160,645	3.42 %	73,799	2,010,609	4.81 %	96,692
Other liabilities	144,336	—	—	114,708	—	—
Subordinated indebtedness	60,000	6.60 %	3,946	50,630	6.60 %	3,342
Shareholders' equity	175,501	—	—	143,990	—	—
	\$2,540,482	3.06 %	\$ 77,745	\$2,319,937	4.31 %	\$ 100,034
Net interest income		2.16 %	\$ 54,943		2.43 %	\$ 56,455

\$13.3 million compared to \$13.1 million in 2001. The number of employees was 238 (on a full time equivalent basis) at October 31, 2002, compared to 239 at October 31, 2001. Premises and technology expenses totalled \$9.8 million compared to \$9.3 million in 2001. The increase is principally due to greater activities in technology. Other expenses were \$13.8 million, up \$1 million or 7.8% from \$12.8 million in 2001, of which \$0.4 million was for Sun Life Financial Trust service agreement related to the acquisition of the net assets and \$0.5 million due to administration fees paid to Laurentian Bank of Canada for increasing volume of the residential mortgage portfolio.

#### Efficiency ratio

B2B Trust's operational efficiency ratio for 2002 increased to 51.4% from 47.9% in 2001. B2B Trust's efficiency ratio compares favourably to traditional Canadian financial institutions, particularly to the major Canadian banks.

## BALANCE SHEET

Balance sheet assets stood at \$2.7 billion as at October 31, 2002 compared to \$2.5 billion at year-end 2001, for an increase of \$0.2 billion or 8%. Total loans increased by \$239 million to reach \$2.2 billion at October 31, 2002. Investment and other personal loans increased by \$161 million to reach \$1.2 billion which included \$38 million of lines of credit acquired from Sun Life Financial Trust. Residential mortgages increased by \$78 million to reach \$976 million as a result of the acquisition of \$342 million of residential mortgages from Laurentian Bank of Canada. During the year, deposits increased by \$170 million to reach \$2.3 billion at October 31, 2002, of which \$98 million of the increase is explained by the acquisition of Sun Life Financial Trust net assets.

#### Cash and cash equivalents and residential mortgages

Cash and cash equivalents stood at \$210 million in 2002 compared to \$222 million in 2001. As a result, the liquidity ratio declined to 15.9% as at October 31, 2002 compared to 18.8% as at October 31, 2001. While maintaining liquidity well above prudent levels, this reduction in liquidity has permitted a reallocation of cash resources to higher-yielding blocks of residential mortgages. At October 31, 2002, residential mortgages were at \$976 million compared to \$898 million at the end of 2001.

#### Investment loans

The investment loan volume has improved significantly in 2002, showing a \$119 million increase from October 31, 2001, or 11.2%, largely due to the successful RRSP campaign.

Investment loans consist of \$1,101 million of mutual fund loans and \$81 million of RRSP loans. The mutual fund loan portfolio consists of 24,274 loans with an average balance of approximately \$45,000 per loan. These loans are typically secured by four or five mutual funds, therefore providing good diversification. Mutual funds must meet B2B Trust eligibility for use as collateral.

#### Other personal loans

Other personal loans increased by \$41.4 million from \$0.3 million in 2001 to \$41.7 million in 2002 as a result of \$38 million of loans acquired from Sun Life Financial Trust.

#### Impaired loans

Despite difficult financial markets and the continued volatility in 2002, credit quality of the investment portfolio remained strong.

Gross impaired loans stood at \$1.7 million at October 31, 2002 for a decrease of \$0.1 million from October 31, 2001. Specific and general allowances increased by \$0.5 million from October 31, 2001 to \$2.1 million at October 31, 2002. B2B Trust's allowance for credit losses provisions included a general provision of \$1.4 million at October 31, 2002, an increase of \$0.4 million over 2001 associated with the acquisition of Sun Life Financial Trust net assets in September 2002.

Net impaired loans stood at (\$0.5) million, or (0.04)% of total investment and other personal loans at October 31, 2002, compared to \$0.2 million or 0.01%, at October 31, 2001.

## INVESTMENT AND OTHER PERSONAL LOANS – BALANCE OUTSTANDING (in millions of dollars)



## Deposits

Throughout the year, B2B Trust has strengthened its leadership in the independent financial advisor market. Total deposits at October 31, 2002 were \$2.3 billion, an increase of 8.1% compared with \$2.1 billion in 2001. Demand and notice deposits were \$229 million, up \$100 million from \$129 million in 2001 due to deposits acquired from Sun Life Financial Trust. Term deposits were \$2,038 million, up \$69 million from \$1,969 million in 2001.

## Assets under administration

Assets under administration for self-directed plans stood at \$4.5 billion at October 31, 2002 compared to \$5.3 billion at October 31, 2001, mainly due to decreases in the market value of assets and a decrease in the number of plans under administration.

## CAPITAL

Total capital of B2B Trust was \$243.0 million as at October 31, 2002 and was comprised of \$60.0 million of subordinated indebtedness and \$183.0 million of common shareholders' equity. B2B Trust had 24.8 million common shares outstanding and a book value of \$7.37 per common

share as at October 31, 2002, an increase from the \$6.68 per common share at October 31, 2001. The BIS Tier 1 and Total capital ratios were 13.3% and 17.6%, respectively, as at October 31, 2002 compared to ratios of 13.3% and 18.2% as at October 31, 2001. The Tier 1 capital of B2B Trust is composed entirely of common shareholders' equity and these ratios are well in excess of the 7% and 10% statutory requirements for a well-capitalized financial institution.

A discussion of B2B Trust's risks and existing risk management measures can be found under the section Toward Integrated Risk Management on page 13 of this Annual Report.

## DIVIDENDS

B2B Trust began paying a dividend in the second quarter of 2002. B2B Trust's introduced a quarterly dividend of \$0.07 per common share. Total dividends declared during the fiscal year were \$3.5 million.

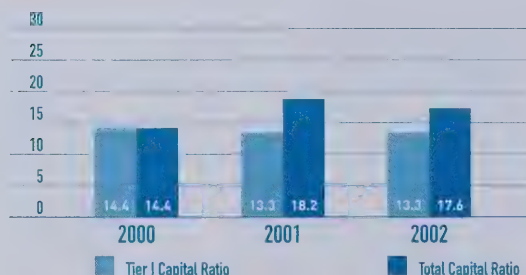
## OUTLOOK

Management is committed to leveraging B2B Trust's products and distribution alliances to enhance growth and improve

returns by focusing on the Company's most profitable core products and services.

With its strong capital base, niche market strategy and experienced management team, B2B Trust is ready to build on growth associated with several key new agreements made during the year as well as to pursue additional distribution alliances. With these distribution alliances gaining strength, the economic recovery forecasted for 2003 and the corresponding renewed capital market activity, B2B Trust should grow in its various business lines, and therefore enhance shareholders' value accordingly.

## BIS CAPITAL (as a percentage)



## RISK-WEIGHTED ASSETS

As at October 31	2002			2001	
	BIS weighting factor	Gross notional amount	Risk- weighted amount	Gross notional amount	Risk- weighted amount
(in thousands of dollars)					
Balance sheet assets					
Cash and cash equivalents	20 %	\$ 209,763	\$ 41,953	\$ 221,573	\$ 44,315
Securities issued or guaranteed by Canada or provinces	0 %	208,116	—	181,761	—
Other securities	100 %	10,521	10,521	62,988	62,988
Mortgage loans					
CMHC-insured	0 %	941,588	—	897,599	—
Residential mortgages	100 %	34,457	34,457	—	—
Investment and other personal loans	100 %	1,221,360	1,221,360	1,061,002	1,061,002
Capital assets and other assets	100 %	60,538	60,538	56,841	56,841
Goodwill and other	0 %	—	—	91	—
Total – On-balance sheet assets		\$2,686,343	\$1,368,829	\$2,481,855	\$1,225,146
Off-balance sheet items					
Derivative financial instruments			10,721		18,454
Total – Risk-weighted assets – BIS			\$1,379,550		\$1,243,600

## REGULATORY CAPITAL – BIS

As at October 31	2002		2001	
				Variation 2002/2001
(in thousands of dollars)				
Common shares and contributed surplus	\$	153,189	\$ 153,189	— %
Retained earnings		29,846	12,660	136
Less goodwill		—	(91)	n/a
<b>Total – Tier I capital (A)</b>		<b>183,035</b>	<b>165,758</b>	<b>10</b>
<b>Subordinated indebtedness</b>		<b>60,000</b>	<b>60,000</b>	<b>—</b>
<b>Total – Tier II capital</b>		<b>60,000</b>	<b>60,000</b>	<b>—</b>
<b>Regulatory capital – BIS (B)</b>	<b>\$</b>	<b>243,035</b>	<b>\$ 225,758</b>	<b>8 %</b>
<b>Total risk-weighted assets – BIS (C)</b>		<b>\$1,379,550</b>	<b>\$1,243,600</b>	
<b>Tier I BIS capital ratio (A/C)</b>		<b>13.3 %</b>	<b>13.3 %</b>	
<b>Total BIS capital ratio (B/C)</b>		<b>17.6 %</b>	<b>18.2 %</b>	
<b>Balance sheet assets to BIS capital ratio</b>		<b>11.1 x</b>	<b>11.0 x</b>	

## QUARTERLY HIGHLIGHTS

	2002				2001			
(in thousands of dollars, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Interest income	\$ 34,679	\$ 33,610	\$ 31,164	\$ 33,235	\$ 36,861	\$ 38,920	\$ 39,386	\$ 41,322
Interest expense	\$ 21,689	\$ 20,052	\$ 16,943	\$ 19,061	\$ 23,212	\$ 24,286	\$ 25,471	\$ 27,065
<b>Net interest income</b>	<b>\$ 12,990</b>	<b>\$ 13,558</b>	<b>\$ 14,221</b>	<b>\$ 14,174</b>	<b>\$ 13,649</b>	<b>\$ 14,634</b>	<b>\$ 13,915</b>	<b>\$ 14,257</b>
Provision for credit losses	\$ 187	\$ 188	\$ 188	\$ 187	\$ 573	\$ 75	\$ 75	\$ 75
	12,803	13,370	14,033	13,987	13,076	14,559	13,840	14,182
Other income	\$ 3,964	\$ 4,149	\$ 4,431	\$ 4,306	\$ 4,468	\$ 3,974	\$ 4,629	\$ 3,959
Non-interest expenses	\$ 9,338	\$ 9,124	\$ 9,417	\$ 9,024	\$ 8,327	\$ 8,529	\$ 9,546	\$ 8,780
<b>Income before income taxes</b>	<b>\$ 7,429</b>	<b>\$ 8,395</b>	<b>\$ 9,047</b>	<b>\$ 9,269</b>	<b>\$ 9,217</b>	<b>\$ 10,004</b>	<b>\$ 8,923</b>	<b>\$ 9,361</b>
Income taxes	2,975	3,302	3,521	3,678	3,866	5,376	3,650	4,152
<b>Net income</b>	<b>\$ 4,454</b>	<b>\$ 5,093</b>	<b>\$ 5,526</b>	<b>\$ 5,591</b>	<b>\$ 5,351</b>	<b>\$ 4,628</b>	<b>\$ 5,273</b>	<b>\$ 5,209</b>
<b>Return on common shareholders' equity</b>	<b>9.8 %</b>	<b>11.4 %</b>	<b>13.0 %</b>	<b>13.1 %</b>	<b>13.0 %</b>	<b>13.4 %</b>	<b>17.8 %</b>	<b>13.5 %</b>
<b>Per common share</b>								
Average number of common shares outstanding (in thousands)	24,844	24,844	24,844	24,844	24,844	20,674	18,450	18,450
Net income	\$ 0.18	\$ 0.20	\$ 0.22	\$ 0.23	\$ 0.22	\$ 0.22	\$ 0.28	\$ 0.27
Book value	\$ 7.37	\$ 7.26	\$ 7.12	\$ 6.90	\$ 6.68	\$ 6.46	\$ 7.90	\$ 6.45
Stock market share price – close	\$ 7.80	\$ 10.00	\$ 12.10	\$ 9.30	\$ 7.50	\$ 9.15	n/a	n/a
Total assets (end of period)	\$2,686,343	\$2,608,875	\$2,580,247	\$2,507,417	\$2,481,855	\$2,412,355	\$2,359,138	\$2,301,936
Risk-weighted asset	\$1,379,550	\$1,352,242	\$1,352,464	\$1,252,749	\$1,243,600	\$1,204,472	\$1,196,103	\$1,220,868
Tier 1 capital	\$ 183,035	\$ 180,320	\$ 176,966	\$ 171,440	\$ 165,758	\$ 160,393	\$ 145,680	\$ 118,844
Total capital	\$ 243,035	\$ 240,320	\$ 236,966	\$ 231,440	\$ 225,758	\$ 220,393	\$ 205,680	\$ 178,844
<b>Capital ratios</b>								
Tier 1	13.3 %	13.3 %	13.1 %	13.7 %	13.3 %	13.3 %	12.2 %	9.7 %
Total capital	17.6 %	17.8 %	17.5 %	18.5 %	18.2 %	18.3 %	17.3 %	14.7 %
Balance sheet assets to BIS capital ratio	11.1 x	10.9 x	10.9 x	10.8 x	11.0 x	10.9 x	11.5 x	12.9 x

# TOWARD INTEGRATED RISK MANAGEMENT

Risk management is critically important to B2B Trust at all levels of the organization. In fiscal 2002, substantial resources were allocated in establishing and promoting an integrated risk management program to ensure that B2B Trust has a strong and well-informed risk culture.

The mandate of the integrated risk management program is to:

- Establish an integrated risk management framework that promotes identification, measurement and evaluation of market risks (including structural risk, foreign exchange risk and liquidity risk), capital management, credit risk and operational risk, as part of strategic planning.
- Introduce processes, norms and standards for operations and the management of confidential information.
- establish risk management policies and standards for the evaluation and reasonable acceptance of risk; and
- establish and apply efficient internal mechanisms for prudent control of these risks.

The Framework is supervised by the Board of Directors with primary responsibility assigned to the Risk Management and Audit Committees of the Board.

Within the structure of the Framework, the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation, the guidelines of the Superintendent of Financial Institutions of Canada ("OSFI"), and all laws applicable to the operations of B2B Trust, such as the *Trust and Loan Companies Act* (Canada), have been taken into consideration.

## RISK MANAGEMENT FRAMEWORK

The integrated risk management framework (the "Framework") constitutes one of B2B Trust's main risk management initiatives. The Framework provides B2B Trust with the tools to:

- identify and evaluate, on an ongoing basis, the major risks that B2B Trust faces, along with their possible repercussions;

## PRINCIPAL RESPONSIBILITIES RELATED TO INTEGRATED RISK MANAGEMENT

Beyond the regular supervision of risk by managers and officers of B2B Trust's lines of business and operating sectors, the Board and the following Committees form an integral part of the risk management process:

### Board of Directors and Committees

Board of Directors	<ul style="list-style-type: none"> <li>Ensures that B2B Trust has an effective strategic management process that takes into account all relevant risks.</li> </ul>
Risk Management Committee	<ul style="list-style-type: none"> <li>Ensures that B2B Trust has an adequate risk management process that covers identification, evaluation and management of risks and the formulation of adequate policies pertaining to market risk, capital management, credit risk and operational risk.</li> <li>Approves rules of conduct and behaviour.</li> </ul>
Audit Committee	<ul style="list-style-type: none"> <li>Ensures that B2B Trust has a control system that fosters appropriate control measures and management of activities and risks.</li> </ul>
Human Resources and Corporate Governance Committee	<ul style="list-style-type: none"> <li>Ensures that the compensation plan is compatible with the attainment of objectives and prudent management of activities.</li> <li>Monitors B2B Trust's corporate governance practices.</li> </ul>

### Internal Management Committees

Management Committee	<ul style="list-style-type: none"> <li>Manages B2B Trust's affairs.</li> <li>Evaluates and approves important risk management policies to ensure that risks are managed in keeping with the policies.</li> <li>Examines and approves new products.</li> </ul>
Credit Committee	<ul style="list-style-type: none"> <li>Defines parameters for granting credit and monitors their application.</li> <li>Authorizes loans within its established limits.</li> <li>Reviews impaired loans.</li> <li>Reviews bad debts and credit losses.</li> </ul>

Compliance Committee	<ul style="list-style-type: none"> <li>■ Ensures that B2B Trust has applied an approach to ensure compliance with applicable legislation and regulatory provisions.</li> <li>■ Establishes and reviews policies to manage regulatory risk, including compliance with control procedures.</li> </ul>
Operations Committee	<ul style="list-style-type: none"> <li>■ Monitors the operational side of B2B Trust's business, including compliance issues that may impact upon B2B Trust's operations.</li> </ul>
Asset and Liability Management Committee	<ul style="list-style-type: none"> <li>■ Ensures compliance with operating parameters related to liquidity and investment management, along with interest rate risk and foreign exchange risk.</li> <li>■ Recommends hedge strategies to maintain the risk level within limits approved by the Board of Directors.</li> <li>■ Recommends positioning strategies for loan and liquidity (or balance sheet) portfolios to adjust to market movements.</li> <li>■ Develops financial management and treasury policies.</li> </ul>
Finance Committee	<ul style="list-style-type: none"> <li>■ Reviews the current economic environment.</li> <li>■ Tracks changes in volumes, product pricing and competition.</li> <li>■ Approves pricing policies, product pricing and product campaigns.</li> <li>■ Establishes service charges and rate charts.</li> </ul>

## NATURE OF RISK

B2B Trust has grouped risks associated with its operations into four principal categories:

- Market Risk Management (including Structural Risk; Foreign Exchange Risk; Liquidity Risk),
- Capital Management,
- Credit Risk Management, and
- Operational Risk Management (including Outsourcing Risk).

## MARKET RISK MANAGEMENT

Market risk is the risk of financial loss due to movements in interest and foreign exchange rates, as well as bond and equity prices for balance sheet and off-balance sheet financial instruments. The level of market risk to which B2B Trust is exposed varies constantly, according to market conditions and predicted swings in market prices and market trends.

For risk management purposes, B2B Trust is ultimately responsible for the application of its Market Risk Management Policies. However, B2B Trust has mandated Laurentian Bank of Canada, through a servicing agreement, to ensure execution and monitoring of all capital market operations. Furthermore, Laurentian Bank of Canada must review market risk management activities on a consolidated basis which includes B2B Trust to ensure compliance with all rules and regulations applicable to all members of the Laurentian Bank Group.

B2B Trust has established policies and limits to enable it to oversee and control exposure to market risks arising from its asset and liability management activities. Detailed reports on risk and monitoring of the limits are produced daily.

### Structural Risk

Structural risk is the potential negative impact of interest rate movements on B2B Trust's results and economic value. The primary sources of structural risk to which B2B Trust is typically exposed are repricing risk, yield curve risk, basis risk and optionality. Repricing risk occurs when there are differences in assets, liabilities and off-balance sheet instruments where maturity or modification date changes occur in a given period. These gaps result mainly from clients' maturity preferences. Yield curve risk affects the market value of portfolios and occurs when the rate of return does not match a given return yield curve. Basis risk occurs when differentials between various index prices change. Optionality stems from the impact of interest rate fluctuations and the degree of volatility on the market value of options held in B2B Trust's portfolios. These options, called "embedded," enable clients to modify their loan and deposit maturity profile. The most common embedded options are the reimbursement characteristics of certain term deposit products and the prepayment options of certain loan products.

Both the dynamic management and disciplined control of structural risk contribute to maintaining B2B Trust's profitability and to preserving common shareholders' equity. The objective of portfolio management is to achieve an equilibrium between the increase in interest income and the reduction of the negative impact of interest rate movements. To attain these objectives, the risk profile of the portfolio is adjusted by means of interest rate swaps and other derivative instruments, taking into account the projected yield curve of interest rate variations and the current level of risk assumed.

Structural risk is managed by the Asset and Liability Management Committee of B2B Trust in accordance with relative ceilings of economic value and interest rate risk. Risk ceilings are calculated based on immediate and sustained parallel movements of 100 basis points of rates for all maturities. Economic value risk measures the net negative impact on the present value of balance sheet and off-balance sheet assets and liabilities. Interest income risk measures the negative impact on net interest income from interest rate movements over the next twelve months. Portfolio positions are reviewed periodically by the Asset and Liability Management Committee, which is in charge of establishing B2B Trust's positioning with regard to anticipated interest rate movements and recommending hedging of all undesirable or unforeseen interest rate risk.

### Foreign Exchange Risk

Foreign exchange risk is linked to the possible negative impact of exchange rate variations on B2B Trust's results and economic value.

Foreign exchange positions may result from products and services offered in currencies other than Canadian dollars or from arbitrage activities. Risk control therefore implies that non-covered positions be maintained and managed to take advantage of short-term market fluctuations. Hence, the setting of global limits reviewed on an annual basis specify the maximum risk B2B Trust is willing to assume considering its activities.

### Liquidity Risk

Liquidity management provides B2B Trust with the assurance that sufficient funds will be available to meet its commitments. Liquidity risk is the risk of loss if B2B Trust does not have sufficient cash resources, when required, to meet all its cash flow obligations, whether for balance sheet or off-balance sheet instruments. Efficient liquidity management is essential to maintaining market confidence and protecting B2B Trust's capital. It is an integral part of asset and liability management. B2B Trust monitors cash resources daily and applies a prudent liquidity management policy that enables it to meet its cash requirements at all times. It pays particular attention to deposit and loan maturities, along with funding availability and demand, while abiding by the regulatory requirements governing it.

## CAPITAL MANAGEMENT

The capital of B2B Trust is comprised of common shareholders' equity and subordinated indebtedness. B2B Trust's capital represents an essential factor in assessing its stability and security in relation to the risks associated with its activities. Capital management contributes to B2B Trust's profitability, as it is allocated to key sectors for which defined profitability objectives and criteria have been established. B2B Trust's aim is to maintain an optimal level of capital to support its activities while generating an attractive and competitive return for its shareholders in relation to industry standards and its specific risk profile. B2B Trust's policy is to maintain its statutory capital ratios at a level comparable to that of the industry and consistent with regulatory requirements as defined by OSFI for well capitalized financial institutions.

## CREDIT RISK MANAGEMENT

Credit risk is the risk of a financial loss occurring because of the inability or refusal of a counterparty to fully honour the contractual or financial obligations of a balance sheet or off-balance sheet financial instrument. This risk results from being party to a financial operation with a counterparty. The expression “counterparty” encompasses an issuer, a debtor, a borrower, a broker or an underwriter.

Credit risk management is largely independent of operations, thus protecting the independence and integrity of risk evaluation. The Risk Management Committee of B2B Trust’s Board of Directors oversees the management of credit risk. It is assisted by an internal Credit Committee at B2B Trust that is responsible for the operational supervision of overall credit risk management. B2B Trust, pursuant to a service agreement, has retained the services of Laurentian Bank of Canada with respect to the analysis, approval and recovery of certain loans and management of credit systems.

The credit risk policies adopted by B2B Trust provide for appropriate risk assessment and the setting of lending limits. These policies cover the approval of credit applications by the line of authority concerned, attributing risk ratings, managing of impaired loans, establishing of general and specific provisions and pricing based on risk. Under the credit limit rules, no loan to a single borrower may exceed \$1.5 million, unless otherwise approved by the Risk Management Committee of the Board of Directors.

B2B Trust ensures a rigorous and systematic follow-up of its loan portfolio both in terms of quality and quantity by applying different mechanisms and policies. This includes systematically reviewing various categories of loans and collateral and analyzing pricing. Each month, Management reviews impaired loans and follows up on loans where payment is past due. As well, the collection process is centralized and is based on specialized expertise.

## OPERATIONAL RISK MANAGEMENT

Operational risk results from insufficiency or failure attributable to procedures, personnel, internal systems or external events.

The Risk Management and Compliance Department of B2B Trust, in conjunction with the Risk Integration and Operational Risk Management Department of Laurentian Bank of Canada, support the operational risk management function: these departments develop appropriate policies, gather data on operating losses, assist managers in identifying operating risks and put in place control measures and procedures.

### Outsourcing Risk

Outsourcing is an important strategy that enables B2B Trust to remain competitive both in terms of costs and the diversification of products it offers. B2B Trust can choose to outsource activities in which it has not attained the critical level of use or expertise, and in which some providers are more efficient and profitable. As part of its Outsourcing Policy, it ensures that its partners operate according to sound management practices and usually reserves the right to audit these practices.

# FINANCIAL STATEMENTS

## Management's responsibility for financial information

The financial statements of B2B Trust were prepared by management, which is responsible for the integrity and fairness of the financial information presented. The financial statements were prepared in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. The financial statements reflect amounts which must, of necessity, be based on the best estimates and judgement of management with appropriate consideration as to materiality. The financial information presented elsewhere in this annual report is consistent with that in the financial statements.

In discharging its responsibility for the fairness and integrity of the financial information and the supporting accounting systems:

- Management maintains the necessary internal control system designed to provide assurance that transactions are properly authorized, assets are safeguarded and proper accounting records are maintained. The controls include quality standards in hiring and training of employees, written policies, authorized limits for managers, procedure manuals, a corporate code of conduct and appropriate management information systems.
- The systems of internal control are further supported by a compliance function, which ensures that B2B Trust and its employees comply with regulatory requirements, as well as by an integration function with respect to risk and operating risk management that ensures proper risk control, related documentation and the measurement of the financial impact of risks.
- Internal auditors periodically evaluate various aspects of B2B Trust's operations and make recommendations to management for improvements in controls.

Every year, the Superintendent of Financial Institutions of Canada makes such examinations and inquiries as deemed necessary to satisfy itself that B2B Trust is in a sound financial position and that it complies with the provisions of the *Trust and Loans Companies Act* (Canada) as well as the Standards of Sound Business and Financial Practices of the Canada Deposit Insurance Corporation.

Ernst & Young LLP, independent auditors, appointed by the shareholders, examine B2B Trust's financial statements and their report follows.

The internal auditors, the external auditors and the Superintendent of Financial Institutions of Canada meet periodically with the Audit Committee, in the presence or absence of management, to discuss all aspects of their duties and matters arising therefrom.

The Board of Directors is responsible for reviewing and approving the financial statements and the management discussion and analysis included in the annual report. It oversees the manner in which management discharges its responsibilities for the presentation and preparation of financial statements, maintenance of appropriate internal controls, risk management as well as assessment of significant transactions and related party transactions through its Audit Committee and its Risk Management Committee.

**Bernard Piché**  
President and Chief Executive Officer

Toronto, Canada,  
December 2, 2002

**Diane Lafresnaye**  
Vice-President, Finance

## Auditor's report to the shareholders of B2B Trust

We have audited the balance sheet of B2B Trust as at October 31, 2002 and 2001 and the statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of B2B Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of B2B Trust as at October 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada.

Toronto, Canada,  
December 2, 2002

**Ernst & Young LLP**  
Chartered Accountants

# Balance sheet

As at October 31

(in thousands of dollars)

	Notes	2002	2001
<b>ASSETS</b>			
Cash and cash equivalents		\$ 209,763	\$ 221,573
Securities	3	218,637	244 749
Loans	4		
Investment		1,181,779	1,062,344
Residential mortgages		976,045	897,599
Other personal	2	41,721	276
		2,199,545	1,960,219
Allowance for credit losses		(2,140)	(1,618)
		<b>2,197,405</b>	<b>1,958,601</b>
Capital assets	5	3,072	2,874
Other assets	6	57,466	54,058
		<b>\$2,686,343</b>	<b>\$2,481,855</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits	2 and 7	\$2,267,155	\$2,097,462
Other liabilities	8	176,153	158,544
		<b>2,443,308</b>	<b>2,256,006</b>
<b>Subordinated indebtedness</b>	<b>9</b>	<b>60,000</b>	<b>60,000</b>
<b>Shareholders' equity</b>			
Common shares	10	131,640	131,640
Contributed surplus		21,549	21,549
Retained earnings		29,846	12,660
		<b>183,035</b>	<b>165,849</b>
		<b>\$2,686,343</b>	<b>\$2,481,855</b>

(Related party transactions – see Note 15)

The accompanying notes form an integral part of the financial statements.

On behalf of the Board:



Raymond McManus  
Chairman of the Board



Bernard Piché  
President and Chief Executive Officer

# Statement of income

For the years ended October 31

(in thousands of dollars, except per share amounts)

	Notes	2002	2001
<b>Interest income</b>			
Loans		\$ 119,747	\$ 137,442
Securities		6,551	6,394
Deposits with other financial institutions		6,390	12,653
		<b>132,688</b>	<b>156,489</b>
<b>Interest expense</b>			
Deposits		73,799	96,692
Subordinated indebtedness	9	3,946	3,342
		<b>77,745</b>	<b>100,034</b>
<b>Net interest income</b>		<b>54,943</b>	<b>56,455</b>
Provision for credit losses	4	750	798
		<b>54,193</b>	<b>55,657</b>
<b>Other income</b>			
Self-directed registered plan fees		13,110	14,134
Deposits		209	139
Other		3,531	2,757
		<b>16,850</b>	<b>17,030</b>
		<b>71,043</b>	<b>72,687</b>
<b>Non-interest expenses</b>			
Salaries and employee benefits	12	13,313	13,114
Premises and technology		9,800	9,276
Other		13,790	12,792
		<b>36,903</b>	<b>35,182</b>
Income before income taxes		34,140	37,505
Income taxes	13	13,476	17,044
<b>Net income</b>		<b>\$ 20,664</b>	<b>\$ 20,461</b>
 Average number of common shares (in thousands)	10 and 14	 <b>24,844</b>	 20,623
Average number of common shares after dilution (in thousands)	10 and 14	<b>24,950</b>	20,623
<b>Net income per common share</b>	10 and 14		
basic		<b>\$ 0.83</b>	\$ 0.99
diluted		<b>\$ 0.83</b>	\$ 0.99

(Related party transactions – see Note 15)

The accompanying notes form an integral part of the financial statements.

# Statement of changes in shareholders' equity

For the years ended October 31

(in thousands of dollars)

	Notes	2002	2001
<b>Common shares</b>			
Balance at beginning of year		\$ 131,640	\$ 134,094
Reduction in stated capital	10	—	(60,000)
Issued during the year	10	—	57,546
<b>Balance at end of year</b>		<b>\$ 131,640</b>	<b>\$ 131,640</b>
<b>Contributed surplus</b>			
Balance at beginning of year		\$ 21,549	\$ 30,609
Related party transactions adjustment	15	—	21,549
Special dividend	10	—	(30,609)
<b>Balance at end of year</b>		<b>\$ 21,549</b>	<b>\$ 21,549</b>
<b>Retained earnings</b>			
Balance at beginning of year		\$ 12,660	\$ 9,064
Net income		20,664	20,461
Dividends		(3,478)	—
Special dividend	10	—	(12,391)
Issue costs, net of income taxes of \$2,418	10	—	(4,474)
<b>Balance at end of year</b>		<b>\$ 29,846</b>	<b>\$ 12,660</b>
<b>Total shareholders' equity</b>		<b>\$ 183,035</b>	<b>\$ 165,849</b>

The accompanying notes form an integral part of the financial statements.

# STATEMENT OF CASH FLOWS

For the years ended October 31

(in thousands of dollars)

	2002	2001
<b>Cash flows from operating activities</b>		
Net income	\$ 20,664	\$ 20,461
Adjustments to determine net cash flows from operating activities:		
Provision for credit losses	750	798
Depreciation and amortization	817	593
Net gains on sale of securities	(42)	(967)
Future income tax expense	9,427	9,325
Change in accrued interest receivable	921	3,108
Increase in amounts receivable on derivative instruments	(3,684)	(2,870)
Change in accrued interest payable	20,581	18,738
Increase in amounts payable on derivative instruments	816	970
Other, net	(15,241)	(19,396)
	<b>35,009</b>	<b>30,760</b>
<b>Cash flows from financing activities</b>		
Net change in deposits	71,691	121,486
Issuance of subordinated indebtedness	—	60,000
Issuance of common shares, net of issue costs	—	53,072
Reduction in stated capital	—	(60,000)
Dividends paid	(1,739)	(43,000)
	<b>69,952</b>	<b>131,558</b>
<b>Cash flows from investing activities</b>		
Net cash and cash equivalents received at the acquisition of net assets	59,410	—
Net change in securities	26,154	(117,196)
Acquisitions of residential mortgages	(341,758)	(391,452)
Net change in loans	140,431	190,440
Acquisitions of capital assets, net	(1,008)	(786)
	<b>(116,771)</b>	<b>(318,994)</b>
Net change in cash and cash equivalents	(11,810)	(156,676)
Cash and cash equivalents at beginning of year	221,573	378,249
<b>Cash and cash equivalents at end of year</b>	<b>\$ 209,763</b>	<b>\$ 221,573</b>
<b>Supplemental disclosure relating to cash flows:</b>		
Interest paid during the year	\$ 56,454	\$ 80,587
Income taxes paid during the year	\$ 9,160	\$ 3,475

The accompanying notes form an integral part of the financial statements.

# NOTES TO FINANCIAL STATEMENTS

October 31, 2002 and 2001

*(Tabular amounts in thousands of dollars, except where indicated otherwise)*

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of B2B Trust have been prepared by management in accordance with Canadian generally accepted accounting principles, including the accounting requirements specified by the Superintendent of Financial Institutions of Canada. The significant accounting policies followed in the preparation of these financial statements are summarized below:

### (a) Use of estimates in the preparation of financial statements

The preparation of the financial statements of B2B Trust requires management to make estimates and assumptions, mainly concerning the valuation of items, which affect reported amounts of assets, liabilities, net income and related disclosures. Actual results could differ from those estimates.

### (b) Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing year-end exchange rates. Income and expenses are translated at the average monthly exchange rates. Gains and losses resulting from the translation of foreign currencies are included in other income.

### (c) Securities

Securities are purchased with the original intention to hold them to maturity or until market conditions render alternative investments more attractive.

Fixed-term securities are recorded at amortized cost. Other securities are recorded at cost, except for those used for hedging purposes, which are accounted for on a basis consistent with the related financial instrument.

Gains and losses realized on disposal of securities and write-downs to reflect other than temporary impairments in value are included in other income. Interest income earned, amortization of premiums and discounts as well as dividends received are included in interest income.

### (d) Loans

Loans are stated net of any unearned interest.

Loans are classified as impaired when, in management's opinion, there is a reasonable doubt as to the timely collectibility of the principal or interest. However, when payment of principal or interest is 90 days past due, the loans are classified as impaired, unless they are well-secured or in the process of recovery. All loans which are 180 days past due are classified as impaired except when they are guaranteed or insured by a Canadian government (provincial or federal) or a Canadian government agency; such loans are classified as impaired if the loan is in arrears for 365 days.

When loans are classified as impaired, the recognition of the interest due ceases. The book value of these loans are then brought back to their estimated realizable value by totally or partially writing off the loan and/or establishing an allowance for credit losses.

Subsequent recoveries of interest on impaired loans are recognized in income only if there is no specific allowance, and if, in management's opinion, there is no reasonable doubt as to the ultimate collectibility of the total principal.

The property rights of assets acquired in settlement of a loan and intended for resale are also included in impaired loans at the lower of the loan balance and its net realizable value.

An impaired loan cannot return to an accrual status unless all principal and interest payments are up-to-date and management has no reasonable doubt as to the recovery of the loan.

Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Allowance for credit losses

B2B Trust maintains an account of allowance for credit losses at an amount deemed adequate to absorb probable credit losses of its loan portfolio. The allowance for credit losses is increased by the provision for credit losses charged to income and reduced by write-offs net of recoveries.

Loans are written off when all possible restructuring or recovery activities have been completed and it is quite unlikely that other amounts can be recovered.

Specific allowances are established on a loan-by-loan basis to absorb losses on all impaired accounts which have been identified as a result of the regular review of its loan portfolio. These allowances are established by estimating the amounts recoverable in relation to the loan amounts; estimated future cash flows are discounted at the effective interest rate inherent in the loan at the date of impairment. When these amounts cannot be reasonably estimated, the fair value of the underlying collateral or the observable market price of the loans are used to establish the allowances.

During the year, B2B Trust revised its valuation model for general allowances to ensure its compliance with the guideline entitled "General Allowances for Credit Risk" issued by the Superintendent of Financial Institutions of Canada. An allocated general allowance, based on the historical loss experience of the previous years and an economic cycle reference factor, is now allocated to each pool of loans with common risk characteristics. This method allows the specific allocation of a general allowance to the identified pools of loans and the determination of an unallocated general allowance.

The allocated general allowance reflects the best estimate of potential losses, related to the deterioration of credit quality, within the portion of the portfolio that has not yet been specifically identified as impaired. The unallocated general allowance reflects the assessment of potential losses which are not identified by the specific allowances and the allocated general allowance. This assessment includes consideration of regulatory requirements, economic and business conditions as well as changes to portfolio composition.

### (f) Capital assets

Capital assets consist of computer equipment and software which are recorded at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets estimated at five years.

### (g) Fee income

Fees on self-directed accounts are recorded as income as the service is provided.

### (h) Employee future benefits

B2B Trust's employees benefit from defined benefit pension plans maintained by the parent company, Laurentian Bank of Canada.

Since January 1, 2001, one of these plans has a defined contribution portion for certain categories of employees. Plan members who were active at this date could elect to remain in the defined benefit portion or participate in the defined-contribution portion for future years of participation. Members who join the plan after January 1, 2001 are required to take part in the defined-contribution portion. The expense for the defined contribution portion corresponds to the contributions that B2B Trust is required to make during the year.

Funding of these plans are provided by both the plan sponsors and the members of the plans. Under the defined benefit plans, retired employees are eligible for benefits based on length of service and the average salary at retirement.

Actuarial valuations of the pension plans are obtained by the parent company, Laurentian Bank of Canada, to determine the present value of the accrued pension benefits. There is no separate actuarial valuation for B2B Trust. Consequently, B2B Trust's contributions to these plans, as determined by the actuaries, are charged to earnings.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Derivative financial instruments

B2B Trust uses derivatives instruments to manage its exposure to interest rates risks and to benefit from market trends. The most frequently used derivative instruments are interest rate swaps and equity derivatives.

The realized gains and losses related to derivative instruments used to manage B2B Trust's own exposure are deferred and amortized to interest expense over the life of the hedged items.

### (j) Income taxes

B2B Trust uses the liability method of tax allocation and reports, in other assets, the future income tax assets resulting from loss carryforwards and temporary differences between the carrying amounts and tax basis of assets and liabilities, in accordance with tax laws and rates enacted or substantively enacted on the date the differences reverse.

### (k) Cash and cash equivalents

Cash and cash equivalents comprise of demand deposits with other financial institutions, bankers' acceptances and bank term deposits which, at the date of acquisition, have a term to maturity less than three months.

### (l) Net income per common share

B2B Trust calculates basic net income per common share by dividing net income for the year by the weighted average number of common shares outstanding for the year.

Diluted net income per common share is calculated assuming that the proceeds received from the exercise of the options are used to redeem common shares at their average market price during the year.

### (m) Comparative figures

Certain comparative figures were reclassified to conform to the presentation adopted for the current year.

### (n) Future accounting changes

#### Stock-based compensation and other stock-based payments

The Canadian Institute of Chartered Accountants issued new standards regarding stock-based compensation and other stock-based payments. Under these standards, B2B Trust chose to value stock options awarded based on their fair value, using an option-pricing model and to charge this value to income over the vesting period. The standard also provides certain terms and conditions related to other stock-based payments.

B2B Trust will adopt these standards prospectively effective November 1, 2002. The impact of this change on the results will depend on future awards and consequently cannot be determined. With respect to awards prior to November 1, 2002, B2B Trust will continue to apply the previous standards according to which compensation cost is not recognized when shares are issued or stock options are awarded to employees. In addition, the consideration paid by employees who exercise their stock options is credited to common equity.

## 2. ACQUISITION

### Sun Life Financial Trust Inc.

On September 3, 2002, in the course of a joint transaction with Laurentian Bank of Canada, B2B Trust acquired a portfolio of personal loans valued at approximately \$38,227,000, net of the allowance for credit losses of approximately \$368,000 from Sun Life Financial Trust Inc. Laurentian Bank of Canada acquired a portfolio of mortgages valued at approximately \$28,528,000. In return, B2B Trust assumed deposit liabilities valued at approximately \$98,002,000 and received a cash consideration of \$59,410,000, including \$28,528,000 from Laurentian Bank of Canada related to its acquisition of the mortgages portfolio, net of acquisition costs incurred of approximately \$365,000.

### 3. SECURITIES

#### (a) Maturity schedule at year-end and returns

	2002					2001	
	Within 1 year	1 to 5 years	Over 5 years	No stated maturity	Total	%	Total %
Securities issued or guaranteed							
by Canada	\$ 160,421	\$ —	\$ —	\$ —	\$ 160,421	3.0	\$ 139,353 4.0
by provinces	—	26,957	20,738	—	47,695	4.8	42,408 3.2
Other debt securities	—	—	—	—	—	—	50,881 4.6
Common shares	—	—	—	10,521	10,521	2.2	12,107 1.9
	\$ 160,421	\$ 26,957	\$ 20,738	\$ 10,521	\$ 218,637	3.3	\$ 244,749 3.9

The term to maturity included in the schedule above is based on the contractual maturity date of the security.

The weighted average return is calculated based on the book value at the year-end of each type of security.

#### (b) Unrealized gains and losses

	2002			
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed				
by Canada	\$ 160,421	\$ 138	\$ —	\$ 160,559
by provinces	47,695	556	—	48,251
Other debt securities	—	—	—	—
Common shares	10,521	—	—	10,521
	\$ 218,637	\$ 694	\$ —	\$ 219,331

	2001			
	Book value	Gross unrealized gains	Gross unrealized losses	Estimated market value
Securities issued or guaranteed				
by Canada	\$ 139,353	\$ 1,272	\$ —	\$ 140,625
by provinces	42,408	94	—	42,502
Other debt securities	50,881	1,252	—	52,133
Common shares	12,107	—	—	12,107
	\$ 244,749	\$ 2,618	\$ —	\$ 247,367

#### 4. IMPAIRED LOANS AND ALLOWANCE FOR CREDIT LOSSES

##### (a) Loans and impaired loans

	2002				
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Net amount of impaired loans
Investment	\$ 1,181,779	\$ 1,655	\$ 772	\$ 632	\$ 251
Residential mortgages <sup>(1)</sup>	976,045	—	—	—	—
Other personal	41,721	—	—	368	(368)
Unallocated general allowances	—	—	—	368	(368)
	<b>\$ 2,199,545</b>	<b>\$ 1,655</b>	<b>\$ 772</b>	<b>\$ 1,368</b>	<b>\$ (485)</b>

	2001				
	Gross amount of loans	Gross amount of impaired loans	Specific allowances	General allowances	Net amount of impaired loans
Investment	\$ 1,062,344	\$ 1,771	\$ 618	\$ —	\$ 1,153
Residential mortgages <sup>(1)</sup>	897,599	—	—	—	—
Other personal	276	—	—	—	—
Unallocated general allowances	—	—	—	1,000	(1,000)
	<b>\$ 1,960,219</b>	<b>\$ 1,771</b>	<b>\$ 618</b>	<b>\$ 1,000</b>	<b>\$ 153</b>

<sup>(1)</sup> The residential mortgage loans are essentially all insured by the Canada Mortgage and Housing Corporation ("CMHC").

##### (b) Allowance for credit losses

	2002			2001	
	Specific allowances	General allowances			
Balance at beginning of year	\$ 618	\$ 1,000	\$ 1,618	\$ 1,150	
Provision for credit losses charged to statement of income	750	—	750	798	
Allowance for credit losses resulting from acquisition (Note 2)	—	368	368	—	
Recoveries	17	—	17	—	
Write-offs	(613)	—	(613)	(330)	
Balance at end of year	<b>\$ 772</b>	<b>\$ 1,368</b>	<b>\$ 2,140</b>	<b>\$ 1,618</b>	

#### 5. CAPITAL ASSETS

	2002			2001	
	Cost	Accumulated depreciation	Net book value	Net book value	
Software	\$ 3,270	\$ 1,204	\$ 2,066	\$ 2,156	
Computer equipment	1,696	690	1,006	718	
	<b>\$ 4,966</b>	<b>\$ 1,894</b>	<b>\$ 3,072</b>	<b>\$ 2,874</b>	

Software include an amount totaling \$198,000 (\$79,000 in 2001) related to projects under development that are not depreciated.

## 6. OTHER ASSETS

	2002	2001
Future income tax assets (Note 13)	\$ 22,836	\$ 27,636
Accounts receivable	11,031	9,140
Amounts related to derivative instruments	10,427	6,743
Accrued interest receivable	3,310	4,231
Other	9,862	6,308
	<b>\$ 57,466</b>	<b>\$ 54,058</b>

## 7. DEPOSITS

	2002	2001
Demand and notice	\$ 228,896	\$ 128,888
Term	2,038,259	1,968,574
	<b>\$ 2,267,155</b>	<b>\$ 2,097,462</b>

Demand deposits consist of all deposits with individual in respect of which B2B Trust is not authorized to require a notice at the time of withdrawal by the customer. These deposits are primarily made up of chequing accounts. Notice deposits consist of all deposits with individual in respect of which B2B Trust may legally require a withdrawal notice. These deposits are generally made up of savings accounts.

Term deposits consist of all deposits with individual maturing at a specific date, in particular term deposits and guaranteed investment certificates.

## 8. OTHER LIABILITIES

	2002	2001
Accrued interest payable	\$ 139,909	\$ 119,328
Cheques and other items in transit, net	19,670	16,755
Amounts related to derivative instruments	1,854	1,038
Other (Note 15)	14,720	21,423
	<b>\$ 176,153</b>	<b>\$ 158,544</b>

## 9. SUBORDINATED INDEBTEDNESS

On December 28, 2000, a subordinated indebtedness in the amount of \$60,000,000 was issued to Laurentian Bank of Canada. This indebtedness is a direct unsecured obligation of B2B Trust and is subordinated in right of reimbursement to the claims of depositors of B2B Trust. Any repurchase or cancellation of subordinated indebtedness must be approved by the Superintendent of Financial Institutions of Canada. The subordinated indebtedness bears interest of 6.60%, which rate will be revised in December 2005 and set at the 90 day bankers' acceptance rate plus 1.25%. This indebtedness matures in December 2010 and is redeemable by B2B Trust at par as of December 2005.

## 10. CAPITAL STOCK

### Authorized

#### **Common shares**

Unlimited number of Common Shares without par value.

#### **Preferred shares**

Unlimited number of non-voting First Preference Shares without par value, issuable in series.

Unlimited number of non-voting Second Preference Shares without par value, issuable in series.

## 10. CAPITAL STOCK (continued)

### Issued and outstanding

	2002		2001	
	Number of shares	Amount	Number of shares	Amount
Common shares	24,844,355	\$ 131,640	24,844,355	\$ 131,640

### Share consolidation

On February 5, 2001, the common shares issued and outstanding were consolidated on a three-for-one basis, thus reducing common shares issued and outstanding prior to the initial public offering ("IPO") from 55,351,066 to 18,450,355. All references in these financial statements to shares outstanding and per share amounts have been restated to reflect this share consolidation on a retroactive basis.

### Capital reorganization

On December 28, 2000, B2B Trust reorganized its capital as a result the stated capital account maintained for common shares was reduced by \$60,000,000, which was paid to Laurentian Bank of Canada. In addition, subordinated indebtedness in the amount of \$60,000,000 was issued to Laurentian Bank of Canada. (Note 9)

### Special dividend

On May 31, 2001, B2B Trust paid a special dividend to Laurentian Bank of Canada in the amount of \$43,000,000. The payment reduced contributed surplus by an amount of \$30,609,000 and retained earnings by an amount of \$12,391,000.

### Initial public offering

On June 27, 2001 and July 20, 2001, B2B Trust completed its IPO of 6,394,000 common shares in Canada at a price of \$9.00 per share representing total gross proceeds of \$57,546,000 which, after deduction of the underwriters' commission and issue expenses, contributed net proceeds of \$53,072,000 to B2B Trust.

### Charitable warrant

B2B Trust has issued during the IPO a share purchase warrant (the "Charitable Warrant") to the Hospital for Sick Children Foundation ("HSCF") for no consideration. The Charitable Warrant is not transferable, may be exercised at any time on or before ten years after the grant, and entitles HSCF to purchase 5,000 common shares in the capital of B2B Trust at a purchase price of \$9.00 per share.

## 11. STOCK-BASED COMPENSATION

Persuant to a share purchase option plan, options are granted to directors, executives and key employees as well as Laurentian Bank of Canada directors and officers, for the purchase of common shares at prices not less than the market price of such shares immediately prior to the grant date.

The right to exercise these options is acquired gradually over a maximum period of four years and the options can be exercised at all times up to 10 years after they have been granted.

As at October 31, 2002, B2B Trust had reserved 1,845,035 common shares (1,845,035 shares in 2001) for the potential exercise of stock options, representing 10% of all the issued and outstanding common shares prior to the closing of the initial public offering.

## 11. STOCK-BASED COMPENSATION (continued)

The following table shows the stock options for the years ended October 31:

	2002		2001	
	Number of options (in units)	Weighted average exercise price per option	Number of options (in units)	Weighted average exercise price per option
Outstanding at beginning of year	965,000	\$ 8.95	—	\$ —
Granted	60,000	\$ 9.53	1,015,500	\$ 8.95
Cancelled	(122,500)	\$ 9.00	(50,500)	\$ 9.00
Outstanding at end of year	902,500	\$ 8.98	965,000	\$ 8.95
Options exercisable at end of year	—	\$ —	—	\$ —

The following table summarizes information relating to stock options outstanding at October 31, 2002.

Range of exercise prices	Number of options outstanding (in units)	Weighted average remaining contractual life (years)	Weighted average exercise price per option
7.83 to 8.39	52,000	8.95	\$ 7.94
9.00 to 9.76	850,500	8.59	9.05
	902,500		

## 12. EMPLOYEE FUTURE BENEFITS

The employee future benefits expense, included in salaries and employee benefits, is \$527,000 for 2002 (\$361,000 in 2001).

## 13. INCOME TAXES

Significant components of the future income tax assets and liabilities are as follows:

	2002	2001
Fiscal intangible assets – Reorganization (Note 15 d)	\$ 15,603	\$ 16,956
Loss carryforwards (Note 15 c)	4,922	8,572
Recoverable minimum tax of financial institutions	4,248	1,850
Shares issue costs	1,404	1,991
Deferred charges	(2,938)	(2,171)
Other temporary differences	(403)	438
<b>Future income tax assets, net</b>	<b>\$ 22,836</b>	<b>\$ 27,636</b>

Significant components of the provision for income taxes are as follows:

Statement of income	2002	2001
Current income tax expense	\$ 4,049	\$ 7,719
Future income tax expense:		
Creation and reversal of timing differences	10,031	7,889
Tax rate changes	(604)	1,436
	<b>\$ 13,476</b>	<b>\$ 17,044</b>

### 13. INCOME TAXES (continued)

Statement of changes in shareholders' equity	2002	2001
Tax on dividends paid on preferred shares of the parent company	\$ 1,009	\$ 501
Tax benefit on common share issue cost	—	(2,418)
	\$ 1,009	\$ (1,917)
Income tax expense	5,636	501
Future income tax benefit	(4,627)	(2,418)
	\$ 1,009	\$ (1,917)

In accordance with tax legislation and as a result of an agreement with its parent company, an amount of tax related to dividends paid on preferred shares of the parent company along with the related tax deduction has been transferred during the year by the parent company to B2B Trust. Pursuant to this agreement a compensation of \$1,009,000 (\$501,000 in 2001) has been received from Laurentian Bank of Canada and has been recorded in the statement of changes in shareholders' equity.

The reconciliation of income tax computed at the statutory tax rates to income tax expense is:

	2002		2001	
	Amount	%	Amount	%
Income taxes at statutory rate	\$ 13,229	38.8	\$ 15,482	41.3
Increase (decrease) resulting from:				
Large corporations tax	500	1.5	225	0.6
Tax rate changes	(604)	(1.8)	1,436	3.8
Other, net	351	1.0	(99)	(0.3)
<b>Income taxes reported in statement of income and effective tax rate</b>	<b>\$ 13,476</b>	<b>39.5</b>	<b>\$ 17,044</b>	<b>45.4</b>

### 14. NET INCOME PER COMMON SHARE

The numbers of shares and options are expressed in thousands.

	2002	2001
Net income	\$ 20,664	\$ 20,461
Average number of common shares outstanding	24,844	20,623
Effect of dilutive securities	106	—
Average number of common shares outstanding after dilution	24,950	20,623
Net income per common share:		
basic	\$ 0.83	\$ 0.99
diluted	\$ 0.83	\$ 0.99

An average number of 447,875 (252,250 in 2001) stock options and charitable warrant were not taken into account in the calculation of diluted net income per common share since the period exercise price of these options and charitable warrant exceeded the average market value of B2B Trust's common shares during the period.

### 15. RELATED PARTY TRANSACTIONS

B2B Trust has carried out transactions, in the normal course of its activities, with its parent company. Related party transactions and balances included in the financial statements of B2B Trust, measured at the exchange amount, consist of the following, with the exception of those disclosed elsewhere in the financial statements:

## 15. RELATED PARTY TRANSACTIONS (continued)

	2002	2001
<b>Statement of Income</b>		
Interest income		
Deposits with other financial institutions	\$ 6,193	\$ 12,653
Securities	429	279
Interest income on swaps (included with interest expense)	38,687	14,264
Non-interest expenses		
Premises and technology	6,008	5,820
Other	5,322	3,698
<b>Assets</b>		
Cash and cash equivalents	\$ 154,926	\$ 221,573
Securities	—	50,881
Other assets	9,737	5,452
<b>Liabilities</b>		
Other liabilities	\$ 3,661	\$ 5,740

### (a) Servicing agreement

B2B Trust has entered into servicing agreement with Laurentian Bank of Canada for various services. The primary services to be provided by Laurentian Bank of Canada include transaction settlement, agency banking services, technology systems and services, risk management services, finance and accounting services, internal audit services, legal and compliance services, human resources, real estate and purchasing services and tax planning and reporting. The term of the servicing agreement is for a period of five years which commenced on July 1, 2000, and will be automatically renewed on a year to year basis. These transactions, which are included in the above table, are carried out in the normal course of business and measured at the exchange amount.

### (b) Purchase of residential mortgages

During the year ended October 31, 2002, B2B Trust acquired from Laurentian Bank of Canada, in the normal course of business, residential mortgages at the exchange amount of approximately \$341,758,000 (\$391,452,000 in 2001).

### (c) Acquisition of LBC Capital Inc.

On October 31, 2001, B2B Trust acquired all the issued and outstanding common shares of LBC Capital Inc. from Laurentian Bank of Canada at its net book value of \$8,572,000. On October 31, 2001, LBC Capital Inc. was liquidated in B2B Trust. The balance of the purchase price payable as at October 31, 2002, amounts to \$3,665,000.

### (d) Reorganization

Pursuant to a share purchase agreement with Sun Life Assurance Company of Canada, Laurentian Bank of Canada acquired, effective March 1, 2000, all the issued and outstanding shares of the Sun Life Trust Company ("SLT"). Prior to its acquisition by Laurentian Bank of Canada, SLT had divested certain of its assets as well as its trust operations.

Following this acquisition, Laurentian Bank of Canada undertook a major reorganization of its agency banking division, which was completed by July 4, 2000 (the "Reorganization"). The primary objective of the Reorganization was to combine most of the net assets and operations of the agency banking division with SLT's customer deposits into one legal entity. As part of the Reorganization, SLT changed its name to B2B Trust.

All the assets, liabilities and operations of the agency banking division, except for its credit card, credit insurance and term deposit operations, (the "Transferred Business") were carved out and transferred to B2B Trust as part of the Reorganization.

## 15. RELATED PARTY TRANSACTIONS (continued)

The principal steps in the Reorganization were as follows:

1. B2B Trust transferred its loan portfolio of approximately \$1.7 billion to Laurentian Bank of Canada at its net book value. B2B Trust's cash resources, securities and customer deposits were not transferred to Laurentian Bank of Canada. The carrying value of these remaining assets and liabilities give effect to Laurentian Bank of Canada's fair value allocation of the purchase price.
2. Laurentian Bank of Canada transferred the Transferred Business to B2B Trust at its net book value of approximately \$0.9 billion. The consideration paid by B2B Trust included cash and 333 common shares (after giving effect to the consolidation of common shares on a three-for-one basis) of a nominal value. Management filed a rollover election in accordance with Section 85 of the *Income Tax Act* (Canada) for this transfer at the end of April 2001. The future income tax asset and contributed surplus increased by \$21,549,000 as a result of this transfer. The future income tax asset balance as at October 31, 2002 amounts to \$15,603,000 (\$16,956,000 as at October 31, 2001).
3. Laurentian Bank of Canada transferred a portfolio of CMHC-insured residential mortgages to B2B Trust at its net book value of approximately \$0.7 billion.

## 16. FINANCIAL INSTRUMENTS

### (a) Fair value

The amounts that follow present the fair value of on- and off-balance sheet financial instruments based on the valuation methods and assumptions as set out below.

Fair value represents the amount at which a financial instrument could be exchanged between willing parties. Quoted market prices are not available for a significant portion of B2B Trust's financial instruments. In such cases, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

(in millions of dollars)	2002			2001		
	Book value	Fair value	Variance favorable (unfavorable)	Book value	Fair value	Variance favorable (unfavorable)
<b>Assets</b>						
Cash and cash equivalents	\$ 210	\$ 210	\$ —	\$ 222	\$ 222	\$ —
Securities	219	219	—	245	247	2
Loans	2,197	2,226	29	1,959	1,998	39
Other Assets	57	57	—	54	54	—
<b>Liabilities</b>						
Deposits	\$ 2,267	\$ 2,340	\$ (73)	\$ 2,097	\$ 2,209	\$ (112)
Other Liabilities	176	176	—	159	159	—
<b>Subordinated indebtedness</b>	\$ 60	\$ 64	\$ (4)	\$ 60	\$ 65	\$ (5)
<b>Off-balance sheet derivative financial instruments</b>	\$ —	\$ 38	\$ 38	\$ —	\$ 71	\$ 71

The fair value of items which are short term in nature or contain variable rate features is considered to be equal to book value.

The fair value of securities is based on quoted market prices or, if not available, it is estimated using quoted market prices of similar investments.

## 16. FINANCIAL INSTRUMENTS (continued)

The fair value of loans, deposits and subordinated indebtedness is estimated by discounting cash flows using market interest rates.

The fair value of off-balance sheet derivative financial instruments is based on quoted market prices or dealer quotes. Otherwise, fair value is estimated on the basis of pricing models, quoted prices of instruments with similar characteristics, or discounted cash flows.

### (b) Interest rate risk

The following tables give the detailed maturity dates and average effective rates of the on- and off-balance sheet instruments.

2002								
	Floating	Less than 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non- interest sensitive	Total
<b>Assets</b>								
Cash and cash equivalents and securities	\$ 909	\$ 202,407	\$ 75,102	\$ 91,767	\$ 37,477	\$ 20,738	\$ —	\$ 428,400
Rate	2.4%	2.9%	3.3%	4.6%	3.4%	5.0%	—%	3.5%
Loans	1,150,258	71,919	251,410	510,762	193,874	18,679	503	2,197,405
Rate	5.4%	4.5%	6.1%	6.4%	7.0%	7.2%	—%	5.8%
Capital assets and other assets	(2)	25,869	—	—	—	—	34,671	60,538
Rate	—%	—%	—%	—%	—%	—%	—%	—%
<b>Total</b>	<b>\$1,151,165</b>	<b>\$ 300,195</b>	<b>\$ 326,512</b>	<b>\$ 602,529</b>	<b>\$ 231,351</b>	<b>\$ 39,417</b>	<b>\$ 35,174</b>	<b>\$2,686,343</b>
Rate	5.4%	3.0%	5.5%	6.1%	6.4%	6.0%	—%	5.4%
<b>Liabilities and equity</b>								
Demand and notice deposits	\$ 39,474	\$ 3,248	\$ 9,743	\$ 59,137	\$ 59,137	\$ 58,157	\$ —	\$ 228,896
Rate	2.6%	0.2%	0.2%	0.2%	0.2%	2.7%	—%	1.2%
Term deposits	\$ —	166,163	435,808	1,026,016	410,272	—	—	2,038,259
Rate	—%	3.7%	4.3%	5.5%	5.4%	—%	—%	5.1%
Other liabilities	20,113	35,619	60,931	45,373	12,991	—	1,126	176,153
Rate	—%	0.8%	1.3%	5.7%	5.2%	—%	—%	2.5%
Subordinated indebtedness and shareholders' equity	—	—	—	—	60,000	—	183,035	243,035
Rate	—%	—%	—%	—%	6.6%	—%	—%	1.6%
<b>Total</b>	<b>\$ 59,587</b>	<b>\$ 205,030</b>	<b>\$ 506,482</b>	<b>\$1,130,526</b>	<b>\$ 542,400</b>	<b>\$ 58,157</b>	<b>\$ 184,161</b>	<b>\$2,686,343</b>
Rate	1.8%	3.1%	3.9%	5.2%	5.0%	2.7%	—%	4.3%
<b>Swaps, net</b>	<b>\$ —</b>	<b>\$ (960,000)</b>	<b>\$ 50,000</b>	<b>\$ 530,000</b>	<b>\$ 410,000</b>	<b>\$ (30,000)</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Sensitivity gap</b>	<b>\$1,091,578</b>	<b>\$ (864,835)</b>	<b>\$ (129,970)</b>	<b>\$ 2,003</b>	<b>\$ 98,951</b>	<b>\$ 48,740</b>	<b>\$ (148,987)</b>	<b>\$ —</b>
<b>Cumulative gap</b>	<b>\$1,091,578</b>	<b>\$ 226,743</b>	<b>\$ 96,773</b>	<b>\$ 98,776</b>	<b>\$ 197,727</b>	<b>\$ 148,987</b>	<b>\$ —</b>	<b>\$ —</b>

## 16. FINANCIAL INSTRUMENTS (continued)

2001

	Floating	Less than 3 months	Over 3 months to 1 year	Over 1 year to 3 years	Over 3 years to 5 years	Over 5 years	Non- interest sensitive	Total
Total assets	\$ 1,003,544	\$ 208,947	\$ 263,715	\$ 658,528	\$ 282,795	\$ 25,686	\$ 38,640	\$ 2,481,855
Rate	5.9%	4.0%	5.5%	5.8%	7.0%	7.4%	—%	5.7%
Total liabilities and equity	\$ 21,522	\$ 208,799	\$ 553,296	\$ 870,976	\$ 660,511	\$ 605	\$ 166,146	\$ 2,481,855
Rate	—%	3.8%	4.3%	5.0%	5.8%	—%	—%	4.6%
Swaps, net	\$ —	\$ (1,080,000)	\$ 315,000	\$ 575,000	\$ 220,000	\$ (30,000)	\$ —	\$ —
Sensitivity gap	\$ 982,022	\$ (1,079,852)	\$ 25,419	\$ 362,552	\$ (157,716)	\$ (4,919)	\$ (127,506)	\$ —
Cumulative gap	\$ 982,022	\$ (97,830)	\$ (72,411)	\$ 290,141	\$ 132,425	\$ 127,506	\$ —	\$ —

Assets, liabilities and shareholders' equity are shown at the earlier of the date of maturity or contractual reevaluation while taking into consideration reimbursements or estimated prepayments, except for the following:

Loans and deposits for which the interest rates are not indexed on a specific rate and which can be non-sensitive to variations of market rates are classified based on the historical evolution of their sensitivity.

Securities held for asset liability management purposes are classified based on the maturity of the related liability.

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, B2B Trust enters into various contracts and commitments in order to protect itself against the risk of fluctuations in interest rates and to benefit from market trends.

The various derivative financial instruments listed in the table below are defined as follows:

Interest rate swaps involve the exchange of fixed and floating interest payment obligations based on a predetermined notional amount for a specific period of time.

B2B Trust also conducts equity derivatives transactions in order to hedge its index-linked deposits.

The following tables present the notional amounts associated with the derivative financial instruments. These amounts do not indicate potential gain and loss related to the credit or market risk of those instruments.

2002

Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Fair value favorable	Fair value unfavorable
Interest rate swaps <sup>(1)</sup>	\$ 375,000	\$ 1,280,000	\$ 30,000	\$ 1,685,000	\$ 43,728	\$ (7,366)
Equity derivatives	18,000	3,304	—	21,304	1,687	—
	\$ 393,000	\$ 1,283,304	\$ 30,000	\$ 1,706,304	\$ 45,415	\$ (7,366)

2001

Notional amount	Within 1 year	1 to 5 years	Over 5 years	Total	Fair value favorable	Fair value unfavorable
Interest rate swaps <sup>(1)</sup>	\$ 315,000	\$ 1,155,000	\$ 30,000	\$ 1,500,000	\$ 62,169	\$ (10,528)
Equity derivatives	47,700	18,000	—	65,700	19,575	—
	\$ 362,700	\$ 1,173,000	\$ 30,000	\$ 1,565,700	\$ 81,744	\$ (10,528)

<sup>(1)</sup> All interest rate swaps as at October 31, 2002 and 2001 are with Laurentian Bank of Canada.

## 18. COMMITMENTS AND CONTINGENCIES

### (a) Credit-related commitments

The amount of \$32,310,000 (none in 2001) of credit-related commitments represents the maximum amount of additional credit that B2B Trust could be obliged to extend. These amounts are not necessarily indicative of credit risk as many of these arrangements will terminate without being drawn upon.

### (b) Minimum lease commitments

B2B Trust has entered into lease agreements with Laurentian Bank of Canada for office space. Future minimum payments with respect to these leases, as at October 31, 2002, are as follows:

2003	\$	691
2004		696
2005		705
2006		493
2007		330
Thereafter		953
	\$	3,868

### (c) Litigation

B2B Trust is involved in various pending legal actions which arise in the normal course of business. Management considers that the aggregate contingent liability resulting from these actions is not significant.

# CORPORATE GOVERNANCE

The Company's internal governance policies and practices are aimed at providing the Board, either directly or through its Committees, with the authority, autonomy and information required to assume its responsibilities with regard to the stewardship of the Company. The corporate governance policies and practices provide for their own regular reviews and assessments by the various Board of Directors' Committees.

The Company's corporate governance practices and policies are consistent with the objectives of the guidelines established by The Toronto Stock Exchange for effective corporate governance (the "TSX Guidelines"). A comparison of the Company's practices with the TSX Guidelines can be found in the Management Proxy Circular prepared for the Annual Meeting for the 2002 fiscal year.

## ROLE OF THE BOARD OF DIRECTORS

The Board is responsible for the overall supervision of the management and affairs of the Company. The Board, directly or through its Committees, is involved in major decisions that affect the Company's development, such as strategic planning, approval of the annual budget, approval of financial statements and overall risk management.

## ROLE OF THE BOARD COMMITTEES

The Board has established three committees (Audit Committee, Human Resources and Corporate Governance Committee and Risk Management Committee), to which it has delegated particular responsibilities and functions. Their composition takes into account applicable legislative requirements and the nature of their mandate. All of the Board's Committees are composed of a majority of unrelated directors. They all report directly in writing to the Board on their work.

# BOARD OF DIRECTORS

- |  |  |   |
|--|--|---|
| <p>(1)(3) <b>Jacques G. Auger</b> (2000)<br/>Nuns' Island, Verdun QC<br/>President<br/>BOMBARDIER AEROSPACE,<br/>Defence Services</p> <p>(1) <b>Robert Cardinal</b> (2000)<br/>Brossard QC<br/>Senior Executive Vice-President<br/>and Chief Financial Officer<br/>LAURENTIAN BANK<br/>OF CANADA</p> <p>(1) <b>Ronald Corey</b> (2000)<br/>Westmount QC<br/>President<br/>RONALD COREY<br/>GROUPE CONSEIL LTÉE</p> <p>(1) <b>Jon K. Grant, O.C.</b> (2000)<br/>Peterborough ON<br/>Chairman of the Board<br/>CCL INDUSTRIES INC.<br/>and LAURENTIAN BANK<br/>OF CANADA</p> | <p>(1)(2) <b>Georges Hébert</b> (2000)<br/>Town of Mount-Royal QC<br/>Business Consultant</p> <p>(2) <b>Veronica S. Maidman</b> (2000)<br/>Toronto ON<br/>Chair, Advisory Council<br/>EQUIFAX CANADA INC.</p> <p>(2)(3) <b>Suzanne Masson</b> (2000)<br/>St-Lambert QC<br/>Executive Vice-President,<br/>Human Resources, Corporate<br/>Affairs and Secretary<br/>LAURENTIAN BANK<br/>OF CANADA</p> <p>(2)(3) <b>Raymond McManus</b> (2002)<br/>(Chairman of the Board)<br/>Baie d'Urfé QC<br/>President and<br/>Chief Executive Officer<br/>LAURENTIAN BANK<br/>OF CANADA</p> <p>(1) Member of the Audit Committee<br/>(2) Member of the Human Resources and Corporate Governance Committee<br/>(3) Member of the Risk Management Committee</p> | <p>(2) <b>Margot Northey</b> (2000)<br/>Kingston ON<br/>Corporate Director</p> <p>(3) <b>Roy Palmer</b> (2001)<br/>Westmount QC<br/>Corporate Director</p> <p><b>Bernard Piché</b> (2002)<br/>Toronto ON<br/>President and<br/>Chief Executive Officer<br/>B2B TRUST</p> <p>(3) <b>Nancy Smith</b> (2001)<br/>Toronto ON<br/>Chair and Chief Executive Officer<br/>THE NEXTMEDIA COMPANY<br/>LIMITED</p> <p>(2) <b>Jonathan I. Wener</b> (2000)<br/>Hampstead QC<br/>Chairman of the Board<br/>CANDEREL<br/>MANAGEMENT INC.</p> |
|--|--|---|

## MANAGEMENT

## COMMITTEE



- |   |  |
|---|--|
| <p>1 <b>Bernard Piché</b><br/>President and Chief Executive Officer</p> <p>2 <b>David Erickson</b><br/>Vice-President<br/>Business Solution</p> <p>3 <b>Ronald Hodges</b><br/>Vice-President<br/>Product Management &amp; Client<br/>Services</p> <p>4 <b>Diane Lafresnaye</b><br/>Vice-President<br/>Finance</p> | <p>5 <b>David E. Sharpe</b><br/>Vice-President<br/>Risk Management<br/>and Assistant Secretary</p> <p>6 <b>Al Spadaro</b><br/>Vice-President<br/>Business Development</p> <p>7 <b>Eva Stamadianos</b><br/>Assistant Vice-President<br/>Human Resources</p> |
|---|--|

# SHAREHOLDER

# INFORMATION

## HEAD OFFICE

130 Adelaide Street West  
Toronto, Ontario  
M5H 3P5

Telephone: (416) 947-5100  
Fax: (416) 865-5950  
Internet address:  
[www.b2b-trust.com](http://www.b2b-trust.com)

## ANNUAL MEETING

The Annual Meeting of the Shareholders of B2B Trust will be held Wednesday, March 19, 2003, at 4:00 p.m. at the Mont-Royal Centre, 2200 Mansfield Street, Montreal, Quebec.

## TRANSFER AGENT

For common shares:  
Computershare Trust  
Company of Canada  
Investors services  
100 University Avenue  
8th floor  
Toronto, Ontario  
M5J 2Y1

## INVESTORS AND ANALYSTS

Investors and analysts may contact the President and Chief Executive Officer of B2B Trust at Head Office by calling (416) 865-5900

## MEDIA

Journalists may contact the Public Affairs and Communications Department by calling (416) 865-5952

## CHANGE OF ADDRESS AND INQUIRIES

Shareholders should notify the Transfer Agent of a change of address. Inquiries or requests may be directed to the Secretary's Office by calling (416) 865-5952

## STOCK SYMBOL

The common shares are listed on the Toronto Stock Exchange under the stock symbol BBT.

This Annual Report was produced by B2B Trust in collaboration with the Public Affairs and Communications department of Laurentian Bank of Canada.

Vous pouvez recevoir un exemplaire français de ce rapport annuel en faisant parvenir votre demande par écrit à :

B2B Trust  
130, rue Adelaide Ouest  
2<sup>e</sup> étage  
Toronto (Ontario)  
M5H 3P5



B2B TRUST